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Testimony of
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Before the Committee on Foreign Relations
United States Senate

"The Future of U.S. Economic Relations In The Western Hemisphere"

On Behalf of
Wheat Export Trade Education Committee
National Association of Wheat Growers
U.S. Wheat Associates

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Good Morning, members of the committee. My name is Jim McDonald and I am a wheat producer from Grangeville, Idaho. I am the Chairman of the Wheat Export Trade Education Committee and U.S. Wheat Associates, and today I also represent the National Association of Wheat Growers.

The U.S. generally exports between 40 and 50 percent of our wheat production. In the Pacific Northwest, where I farm, the percentage is much higher. As a trade-dependent commodity, therefore, our success or failure hinges on our ability to expand U.S. wheat export markets.

The U.S. wheat industry strongly supports moving forward aggressively in both the World Trade Organization and Free Trade Area of the Americas negotiations. The WTO process is important for liberalizing world wheat trade, and the U.S. wheat industry has a clear set of goals in this round of negotiations. However, just as the North American Free Trade Agreement provided great market opportunities -- and clear successes for wheat -- the FTAA can extend liberalization beyond the level envisioned in the WTO, and holds tremendous market growth potential for U.S. wheat producers.

As an added benefit, alliances gained in the FTAA can carry over to the WTO negotiations where there are some extremely contentious differences. We believe that a strong commitment in the hemisphere can be a very positive force against the European Union's protectionist positions.

The U.S. -- including our industry -- is on the brink of major opportunities offered by the FTAA. First, however, several important issues must be addressed in negotiations: market access, state-trading enterprises, monopoly practices, export subsidies, and sanitary/and phytosanitary issues. Resolutions of these issues must result in freer and fairer trade among the countries of the Americas.

Before I move to a discussion of those issues and their effects on the wheat market, let me make an important point on what we should NOT be negotiating. The U.S. must refrain from negotiating on domestic supports within the context of the FTAA. It would be unwise to unilaterally disarm within the hemisphere while leaving the EU to continue subsidizing their producers at high levels. We concur with the U.S. position encouraging the countries within the hemisphere to "work together in the WTO to substantially reduce and more tightly discipline trade-distorting domestic support."

An FTAA offers market opportunities for wheat

The benefits of free trade can clearly be seen in the dramatic increase in wheat exports following the North American Free Trade Agreement. U.S. wheat exports to Mexico have soared 48% over the last five years, and this year's record exports to Mexico will reach over two and a half million tons, making Mexico our second largest customer in the world.

U.S. wheat exports are doing well in Central America and the Caribbean too. During the last five years, U.S. wheat market share in the Caribbean has averaged 75-80%. We are posting significant gains in Central America, where we currently have a 70% market share, and the situation is looking particularly bright in Guatemala and Costa Rica.

While Mexico, the Caribbean and the Central American region are marked by success, however, the South American region is marked by a tougher struggle for market access and market share. U.S. wheat exports to South America have been about 2 million metric tons (MMT) for the past ten years. Conversely, Argentina's exports within the region have gone from 1.6 MMT to 8.2 MMT. The total value of wheat exports to the region is $1.6 billion, with the total value of U.S. exports amounting to just $220 million.

It is expected that South America will experience a five- percent growth rate in wheat imports, and we look to the FTAA to give U.S. wheat a more level playing field on which to compete.

Recently, Brazil has imported almost eight million tons of wheat each year. Despite an U.S. logistical advantage to northern Brazil, the country has been basically a captive of Argentine wheat because of the MERCOSUR arrangement that puts the U.S. at an unfair disadvantage due to a tariff differential.

The U.S. wheat industry also faces difficulties in Guatemala, Peru, Columbia and Venezuela as a result of the monopolistic trading practices of the Canadian Wheat Board (CWB), an anachronistic state trading enterprise. When it has ample stocks, the CWB intentionally undercuts U.S. wheat prices in these markets (and others), and is able to do so not because of a legitimate competitive advantage, but due to unfair trading practice.

The FTAA must be negotiated so that we have duty-free access to Brazil, along with all other markets in Central and Latin America, and it must give us access on a par with Argentina and Canada to the entire hemisphere and the growing economies of 800 million people.

Export competition must be on a level playing field

The U.S. wheat industry vigorously agrees with the U.S. government position that calls for the elimination of all trade-distorting export subsidies within the hemisphere and the establishment of a mechanism that would prohibit "agricultural products from being exported to the FTAA by non-FTAA countries with the aid of export subsidies."

We are also very encouraged by the U.S. position opposing state trading enterprises within the hemisphere. CUSTA and NAFTA left unresolved issues between the U.S. and Canada, and we must not allow these unresolved issues to be carried into the FTAA.

The CWB's state-supported export monopoly controls virtually every aspect of wheat production in the western Canadian provinces, including varietal control, day-to-day execution of sales contracts and long-term market development. It is the largest single grain marketing board in the world, with monopoly control of about 20 percent of world wheat and barley trade. To put it into perspective, recall the Cargill acquisition of Continental's grain business. Together, the two merged companies control roughly 20 percent of U.S. wheat exports, or about 228 million bushels, based on a five-year average. In contrast, the CWB controls annual average wheat exports of 680 million bushels, or about three and half times as much as Cargill and Continental combined.

As a government-supported grain monopoly, the CWB uses discounted price offers, bonus deliveries, supplemental cleaning, delayed payments, indirect transportation subsidies, and other favorable contract terms to often undercut U.S. grain prices. Canadian producers have little say in marketing their crop, and they receive only about 80 percent of its value when turned over to the CWB. No private company that faces commercial risk and stockholder oversight has such control, nor can any offer wheat at whatever price it chooses.

While we are very optimistic about market growth in the Western Hemisphere, U.S. wheat producers have had numerous problems with specific provisions of previous trade agreements in the hemisphere. The Canada-U.S. Free Trade Agreement of 1988, CUSTA, resulted in memorializing trade inequities between U.S. and Canadian farmers. Regrettably, CUSTA talks to open the CWB marketing system to competition were unsuccessful and, even worse, CUSTA actually gave the CWB an advantage over U.S. wheat producers in the U.S. market. Without getting too technical, the two sides agreed (very mistakenly) that the CWB's cost of acquisition was equivalent to the CWB's initial price. (The CWB provides the "initial price" to its growers when they deliver wheat to the pool.) In truth, according to CWB documents, the initial price amounts to about 80 percent of the final price farmers in Canada receive for their wheat after all pool accounts are completed.

We believe that the inequities established in the CUSTA have encouraged the injurious surge of wheat exports from Canada to the United States. Over the last decade, this issue has been one of the single biggest sources of contention along the U.S.-Canada border and one that continues today. Despite the urging of the wheat industry, NAFTA provided no resolution of the Canadian trade issues.

In 2001 the North Dakota Wheat Commission filed a Section 301 petition with the Office of the U.S. Trade Representative. USTR initiated its investigation of the CWB under section 301 at the urging of the Wheat Export Trade Education Committee, the National Association of Wheat Growers, U.S. Wheat Associates, the American Farm Bureau Federation, the National Farmers Union and every state wheat commission.

In February 2002, after a review of the investigation, USTR released an "affirmative finding" that detailed the CWB's monopolistic characteristics. The USTR found "that the acts, policies and practices of the Government of Canada and the CWB are unreasonable and burden or restrict U.S. commerce. Based on the findings, the USTR concluded that "the CWB's subsidies, protected domestic market, special benefits and privileges disadvantage U.S. wheat farmers and infringe on the integrity of a competitive trading system."

With the affirmative finding, U.S. Trade Representative Robert B. Zoellick also announced "that the United States will pursue multiple avenues to seek relief for U.S. wheat farmers from the trading practices of the Canadian Wheat Board (CWB), a government monopoly trading enterprise." This included taking a possible dispute settlement case against the Board in the World Trade Organization, working with the U.S. industry on possibly filing U.S. countervailing duty and antidumping petitions, and working towards market access for U.S. wheat exports to Canada.

The U.S. industry has made specific, realistic suggestions for addressing the underlying problems with the CWB. Our particular focus has been to end the state-mandated monopoly, subjecting the CWB to market discipline. The proactive actions taken by the NDWC and the U.S. wheat industry were intended to work in conjunction with multilateral and regional negotiations on export state trading entities, and any final agreement must provide effective discipline over the CWB's activities in the hemisphere.

The national wheat organizations are very pleased at the progress that has been made on this long-standing issue. We are especially pleased that the Department of Commerce has confirmed that the Canadian Wheat Board is dumping into the U.S. market. The Department of Commerce will begin imposing an 8.15 percent duty on Durum wheat and a 6.12 percent duty on Hard Red Spring Wheat.

The U.S. wheat industry has proven its case and we must not allow monopoly actions to be legalized in the FTAA or any future trade agreements.

Addressing market access issues of tariffs, price bands, and TRQ's

U.S. wheat producers agree with the U.S. FTAA negotiating position that the tariff methods and modalities agreed to must be "fair and reasonable" to "ensure the benefits of free trade are broadly distributed." Since the average U.S. tariff on agricultural imports is about twelve percent, while the rest of the world exceeds sixty percent, reducing high tariffs must be a priority in the FTAA discussions.

We also agree with the U.S. proposal to use the lower of either a product's "most favored nation" applied rate in effect during the negotiations or the WTO bound rate at the end of the negotiating process. This will ensure that the reduction will substantially open markets to U.S. products. Whichever rate is used, it should become a bound rate to add stability in the region.

In addition to negotiations on tariffs, action must be taken to address problems in tariff rate quota administration and price band systems. We are very pleased with the provisions of the Chile Free Trade Agreement that eliminate the use of price bands and we hope this sets a guideline for the FTAA negotiations. We would like to see the elimination of the existing price band mechanisms for wheat and flour, to be replaced by a system of tariffs that would be phased out over an implementation period. The tariffs should be reasonable and should not constitute new trade barriers. We compliment Chile, the principal user of the price band system for wheat, for looking at ways to remove the bands in accordance with World Trade Organization findings that their bands are illegal.

Those countries that administer TRQ'S do so in a variety of ways, from auctioning to allocation of licenses to producer groups, which clearly hinder U.S. exports. The duties outside the quotas must be targeted for reduction. Additionally, the fill-rate of tariff quotas appears to be very low among some countries, resulting in part from bad TRQ administration. To correct this problem, the U.S. may want to consider an incentive-based system to encourage increased imports where fill rates are low.

We concur with the U.S. market access "Tariffs and Non-Tariff Measures Text." This proposes a level playing field by requiring all FTAA countries to grant "national treatment" to products from other FTAA countries, the elimination of import and export restrictions and increasing transparency resulting in reductions in the cost of doing business in the Hemisphere.

Risk assessment is needed for sanitary and phytosanitary (SPS) issues

The proliferation of sanitary/phytosanitary issues has resulted in the slowing or -- in some especially egregious cases -- the temporary cessation of trade with some countries. We must build upon the Uruguay Round Agreement on Agriculture with respect to plant, health and safety. In particular, negotiations to expand NAFTA into a hemispheric agreement must establish a risk assessment framework, as well as the creation of an accepted and expedited procedure for addressing sanitary/phytosanitary disputes when they arise among signatories to the FTAA. We also believe that trade in new technologies is adequately addressed in the SPS/TBT agreements of the World Trade Organization and should not be revisited in these negotiations.

Labor and environmental standards should be addressed in other forums

The importance of environmental protection and labor standards is without question; however, those concerns may be more appropriately addressed in other forums and by other methods than through FTAA negotiations. The U.S. wheat industry is concerned that an effort to link environmental and labor concerns to trade may hinder negotiating leverage or impinge on the goals of trade liberalizing negotiations.

We are especially concerned about any proposal to use trade as an enforcement mechanism, through the imposition of sanctions, in pursuing goals in these or other areas, however desirable the goals may be. We believe that ultimately the most successful resolutions to these concerns can only happen if our trading partners are assured that the U.S. does not intend to use sanctions to “bully” them into relinquishing their sovereignty with respect to environmental and labor standards.

MEAs should not disrupt trade

The wheat industry is very concerned that the many Multilateral Environmental Agreements (MEAs) may disrupt trade around the world. There has been insufficient discussion on how these agreements work with -- or conflict with -- WTO rules. Of immediate concern is the Cartagena Protocol on Biosafety, adopted by the Conference of the Parties to the United Nations Convention on Biodiversity in Montreal on January 29, 2000.

The Protocol is designed to contribute “to the safe transfer, handling and use of living modified organisms” resulting from modern biotechnology, “that may have adverse effects on the conservation of sustainable use of biological diversity, taking also into account risks to human health, and specifically focusing on transboundary movements.”

As of May 6, 2003, 103 countries have signed and 46 countries of the required 50 have ratified the Protocol. We expect that the full 50 countries will have ratified the agreement this summer, bringing the commitment into force within 90 days of ratification. The Biosafety Protocol has created many unknowns for traders around the world, the most basic of which is the undefined relationship to WTO agreements. Included in the written copy is background information on this issue.

Our markets are at risk of intended and unintended consequences from the growing number of MEAs, and particularly those dealing with use of new technologies. Our negotiators must use all available negotiating opportunities, with the FTAA and elsewhere, to ensure that the WTO is paramount and that sound science prevails in disputes that may arise from use of biotechnology and other new technologies and from MEAs.

Trade must be with all countries in the Americas

Finally, to take full advantage of trading opportunities in the Americas, we need access to all of our neighboring markets. Congress must remove the Cuban sanctions. While no one condones recent human rights violations by Fidel Castro, we strongly believe that opening travel, trade and dialogue creates the best opportunities for the Cuban people.

Conclusion

The wheat industry is very pleased by the U.S. Position on Agriculture in the FTAA and for the Doha Round of the WTO. We believe that the U.S. trade policy is headed in the right direction.

To recap, our positions are:

- We need duty-free access to Brazil.
- The unfair advantages given to the CWB monopoly must be ended. We cannot allow monopoly actions to be legalized in the FTAA.
- Reducing high tariffs must be a priority in the FTAA discussions
- Existing price band mechanisms for wheat and flour should be eliminated, replaced by a system of tariffs, which would be phased out.

- A risk assessment framework, including an expedited process, should be established to address sanitary/phytosanitary disputes.
- Environmental and labor issues should not unnecessarily hinder trade opportunities.
- The final agreement must ensure that sound science and WTO rules prevail, especially in regards to biotechnology.
- The existing barriers to trade and travel to Cuba should be removed. Reconsideration should be given to Cuba's inclusion in the FTAA.

The U.S. wheat industry has worked for over 50 years to expand export markets, and we are committed to doing all we can to secure fair and open trading practices around the world. We stand ready to work with you towards a successful outcome of these negotiations in order to realize the market potential of an FTAA and solidify alliances with our neighbors.

Thank you for this opportunity to speak on behalf of the wheat industry.